**Supporting Innovative Business Development Through Innovative Governance in Poland**

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### ABSTRACT

*Poland turned in an impressive performance since the fall of communism, and even during the global financial crisis beginning in 2008. Highly innovative public policies helped catalyze a vibrant private sector, which in turn enabled high economic growth, low unemployment, increased exports and labor productivity, leading to a much-improved standard of living for many citizens. However, comparatively low wages have led up to 12 percent of the population to live and work in other countries. One of the reasons for this is lower rates of innovation and R&D spending than in peer countries.*

*In the context of these various innovative forces and disruptions, this paper focuses on a set of policy actions supported by the Government to promote innovation and competitiveness in Poland's private businesses. The paper seeks to answer two main questions: What is the nature of initial innovations in Poland's public sector that enabled private sector innovation? And, were more recent government programs supported by the World Bank successful in promoting increased business innovation and competitiveness? The paper draws on the authors' recent mission to Poland as part of a World Bank evaluation of the policy operation series (IEG 2019)*[1].



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1 The findings, interpretations, and conclusions expressed herein are those of the authors and do not necessarily reflect the views of the International Bank for Reconstruction and Development / The World Bank and its affiliated organizations, or those of the Executive Directors of The World Bank or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work.

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## OVERVIEW

A paradox of innovation studies is known as the "innovator's dilemma" (Christiansen 1997). Businesses and governments are often blindsided by disruptive technologies. Businesses that are market leaders at the old thing first miss, and then struggle with the new. Companies that produced print magazines, for example, at first missed the potential of digital printing. The logical, competent decisions of leaders in the old industry were critical to the success of their companies, and the reason they eventually lost their leadership position. Building on what was right for their established business, they fail to focus on disruptive technology that led their business to failure.

Governments can also be blindsided by disruptive changes in the political environment. Leadership strategies that were effective under the old regime may be continued too long under the new, leading to failing programs and eviction from public office. This paper examines a case study that brings these two aspects of the "innovation dilemma" together.

Since the first massive disruption leading to the fall of Poland's communist regime in 1989, governance in Poland has been subject to two additional, disruptions. One occurred when Poland’s political landscape changed with the tragic plane crash in 2010 that killed the serving President and 95 other political, military and religious leaders. A second disruption took place in 2015 when Andrzej Duda became president after campaigning as the protector of those that felt they had not benefited from the transformation to capitalism.

Over the same period, businesses in Poland overall turned in an impressive performance since the fall of communism, and even during the global financial crisis beginning in 2008. A vibrant private sector enabled high economic growth, low unemployment, increased exports and labor productivity, leading to improved standard of living for many citizens. However, comparatively low wages have led up to 12 percent of the population to live and work in other countries. One of the reasons for this is lower rates of innovation and R&D spending than in peer countries (Eurostat, 2020). The European Commission’s Europe 2020 Strategy seems to be the reference document that is motivating the need for R&D spending in Poland as it stresses the need to achieve smarter economic growth through the adoption of innovative and absorptive technologies. There is no debate about the importance of enhanced innovation in Poland; it is a necessity for long term growth. Poland’s reliance of capital accumulation to enhance growth may not be sustainable, if it is not supported by persistent improvement in technology-driven productivity.

The World Bank Group recognizes innovation and entrepreneurship as important factors to addressing developmental challenges such as inclusion, sustainability, and shared prosperity (World Bank, 2017c). The World Bank Group invested about $18.7 billion in innovation and entrepreneurship projects between 200 and 2013. Of the total, $8.2 billion was lent through the World Bank, $5.7 billion committed by the International Finance Corporation, and $4.8 billion in guarantees issued by the Multilateral Investment Guarantee Agency. These funds supported growth-oriented companies which contribute significantly to net employment growth, develop novel business models and open new markets. Some of the funds went into assisting countries to resolve constraints such as entrepreneurs' capabilities, management and organization of the firm, and innovative capacity of firms.

In the context of the various innovative forces and disruptions in Poland, this paper focuses on a set of policy actions supported by the government and the World Bank to promote innovation and competitiveness in Poland's private businesses. The paper answers two main questions: What is the nature of initial innovations in Poland's public sector to enable private sector innovation? And, were more recent government programs supported by the World Bank successful in promoting increased business innovation and competitiveness? The paper draws on the authors' recent mission to Poland as part of a World Bank evaluation of the policy operation series (IEG 2019).

## THEORETICAL CONTEXT

This research builds first on business innovation theory, and expands this to theories of innovation in the public sector. A well-known theory distinguishes two types of business innovation. First, disruptive innovation either produces good enough products initially for low end customers, or creates a market where none existed before. Examples include the introduction of personal photocopiers and computers. Second, sustaining innovation makes good products better through incremental advances or major breakthroughs. Examples include Uber and comparable ride share companies.

When faced with a new technology, incumbent businesses make a choice between taking a disruptive path or a sustaining one. Disruptive innovation is a process often beginning as a small scale experiment that gradually tries to expand to erode the incumbents' market share and then their profitability. Incumbents may prevail by beating back the disrupter by offering better services and/or prices, or by acquiring the new entrant. On the other hand, incumbents may prioritize existing customers, and concentrate on sustaining innovations that respond to their existing customer demands. This approach has worked for example in the higher education sector in the USA, where many new institutional forms have arisen, and yet the relative standing on institutions has been largely unchanged for more than 100 years. However, in the last decade online education has emerged as a disruptive innovation, and possibly weaponized by the ongoing pandemic shutdowns; whether this innovation is disruptive enough to change relative institutional standings is still an open question (Christensen, Raynor and McDonald, 2015).

There are various theories of innovation in the public sector. One approach is to draw from analysis of business innovation, and to look for public sector equivalents of entrepreneurs, venture capitalists, investors, first adopters and diffusion agents (Considine and Lewis 2007). The role of entrepreneurial leaders is often considered a central feature (Sanders et al 1998, 33). Another approach is to systematically walk the path of the six disciplines that turn learning into business results. That is, defining business outcomes, designing a complete experience, delivering on application, possessing the drive to follow through , deploying active support and documenting the results (Wick et al, 2006). This feeds into the open innovation literature that believes that those who integrate internal ideas and knowledge purposively in an accelerated manner are likely to possess the future and expand markets (Paasi et al: 2012:23). These ideas do not come without challenges because innovation in itself is multidimensional, dynamic and evolves from a systemic process. It is this reason that innovation across the globe may add value to an existing process, be incremental to stay at pace with evolving knowledge and be radical where to exit from an inefficient way of delivering goods and services. Others look at how institutions such as the legislature or planning and budgeting processes support innovation. A country might innovate well in social policy, but less well in agricultural or energy policy (Weaver and Rockman, 1993).

Auerswald and Branscomb (2003) break the innovation process in industry into five phases: research, concept/invention, early-stage technology development, product development and commercialization. Breznitz (2007) analyzes Taiwan's effort to create a division of labor such that public research institutions take on costly research in developing hardware technology, while private firms focus on manufacturing processes and final product development.

## The Case of Poland

The paper employs a desk-based review of literature and interviews based on a purposive sampling of government officials, development partners (main the World Bank, International Monetary Fund and European Union), academic and private sector stakeholders in Poland. The team visited Poland and interviewed the past and current officials in the Ministry of Finance who were involved in World Bank projects that support innovation and private sector development. The methodology focuses on triangulating information from different groups of stakeholders to draw evaluative findings about the effectiveness of the country's development outcomes.

Table 1: Matrix of Interviewees purposively selected based on their relevance

| Institution | Number of interviewees |
|---|---|

| | |
|---|---|
| Ministry of Finance | 6 |
| Narodowy Bank Polski | 3 |
| World Bank | 11 |
| National School of Public Administration | 4 |
| Other stakeholders | 6 |
| Total number of stakeholders | 30 |

Source: Produced by Authors based on desk review.

Building on this theoretical background, we will try to answer two questions concerning innovation in Poland: What is the nature of initial innovations in Poland's public sector to enable private sector innovation? And, were more recent government programs supported by the World Bank successful in promoting increased business innovation and competitiveness?

### a. Initial innovation in the public sector to enable an innovative private sector

Poland's transition from a command economy to market-based economy started picking up speed with the adoption January 1, 1990 of the Balcerowicz Plan. The innovative policy initiative was named after Finance Minister Leszek Balcerowicz, serving at the time under President Jaruzelski. Jaruzelski had become Prime Minister and first Secretary of the Central Committee of the Polish United Workers' (Communist) Party in 1981, reinforced by harsh measures under martial law to crush pro-democracy movements including Solidarity, a leading trade union. However, the worsening of the Polish economy, unwillingness of the Soviet Union to send troops to prop up the regime, and the political reforms enacted in the former Soviet Union under Mikhail Gorbachev led to labor unrest, negotiations between the government and emerging political organizations, and a partly free election June 4, 1989 for a newly created bicameral legislature. Jaruzelski was succeeded in December 1990 by Lech Wałęsa, who became the first freely elected President of Poland.

All of this provided the background for the Balcerowicz Plan, which became a key landmark of innovation in Poland's transition. The "shock therapy" supported under the Plan stopped subsidies to state enterprises, opened foreign trade, decontrolled prices, reduced shortages, and made the Polish currency convertible at market rates. The result was to create much more favorable conditions for private business development. Start-up businesses could now obtain all the raw materials and equipment they needed at market prices.

The transition in Poland was different from the one in other planned economies in the way that initial growth was led mainly by small, private business, rather than improvements in state owned enterprises. The latter found it difficult to carry out the overhaul of management and organizational structures required. This opened opportunities for private business to provide high quality products and services that state enterprises were unable to produce. For example, Semeco-Okmess was a new joint venture between two Polish companies and a Swedish company owned by Poles living in Sweden. It sets up a chain of Western-style supermarkets with aisles stocked with Western products, open 24 hours a day. By offering a better selection of goods, and superior service, the chain became an instant success, with a profit margin of 30 percent after only two years in business.

Poland's success with shock therapy stands in contrast to the experience of other transition countries such as Russia, where "Potemkin Privatization" encouraged looting of state assets and moving funds into foreign accounts of a handful of insider oligarchs (Wedel 2009: 23-46). An important reason for this is Poland's very different cultural and historical context. Prior to the disruption beginning with World War II, Poland was a democratic, market economy with an educated citizenry and deep Christian traditions all closely aligned with the values of Western Europe. During the succession of foreign occupations, first by Nazi Germany, and then by the Soviets, Poles maintained an active, underground barter economy to provide for basic needs[2]. The foreign occupations also destroyed the old aristocracy and other elites, thus avoiding the oligarchic capture of other transition economies (Piatkowski 2018). In addition, Poland was one of the few transition economies that had legally recognized private enterprises in agriculture and some urban industries during the communist era. Poland also benefited from returning migrants from western countries that brought their skills and attitudes back home (Åslund 2018).

The Solidarity movement picked up momentum in the 1980s building on this underground market with a number of highly innovative practices drawn from the country's culture and history. Thus, when printers ink and printing presses were unavailable under martial law, they found a way of making ink by mixing cleaning agents and boot polish, and built backpack-sized printing equipment. To get out radio broadcasts, they developed homemade broadcasting equipment, and a system of distributing nightly news to broadcasters using underground distribution of cassette tapes[3]. This legacy of underground markets and some private businesses was the foundation of the new order as a new law allowed anything to be sold by anybody to anybody at any place at any price, leading to the transformation of informal traders to shopkeepers (Åslund 2013).

2 Interview with Ryszard Praszkier, University of Warsaw. This interviewee provided information that was later validated by other stakeholders interviewed in the country.

3 Praszkier et al. 2017.

While the new approach to shock therapy found initial success mainly with private businesses, there was also some progress in state enterprise reform, although results were uneven. For example, the Szczecin shipyard started focusing on midsize container ships. Introducing performance-based pay reduced the time taken to build a ship from 36 months to 11 months. Management also got the backing of labor unions for sharply cutting the workforce, and slashing benefits such as workers' apartments and vacation facilities, arguing that without taking extreme measures, the shipyard would have to close. This initial success with state enterprise reform was not typical of other reform efforts. Initial reforms at the Gdansk shipyard, for example, where the Solidarity movement got its start, made virtually no headway, despite a starting place very similar to that at Szczecin (Johnson and Loveman 1995).

The failure of most initial state enterprise reform, combined with political instability, led to lower levels of foreign direct investment than in other transition economies to the south in the 1990s (Åslund 2013). The country benefited from aid and debt relief, but the challenges were still massive. As Lech Walesa put it:

> "It is easy to make fish soup from an aquarium with living goldfish, but just imagine what a challenge it is to try to make an aquarium with living goldfish out of fish soup. And this is precisely what we are trying to do (Piatkowski 2018, cited in Sandbu 2019)."

While the transition from planned to market economy was enabled by innovative policy initiatives such as the Balcerowicz Plan, a different set of innovations in public administration also played a role. The new Constitution provides for a public service "to ensure a professional, diligent, impartial and politically neutral discharge of the state's obligations." A National School of Public Administration was set up in 1990 based on the model of the French Ecole National d 'Administration to educate non-political professionals for higher positions. This had little initial impact, as few graduates reached higher positions, and about half left after their five years of obligatory employment; however, the impact increased over time. Processes were further defined in five successive pieces of legislation, beginning with the Civil Service Act (1996). Different governments varied in their administrative vision, with some pushing for merit-based selection and promotion, and others for political appointments for key managerial positions. With the Civil Service Act (2008), many (though not all) of the provisions for competitive, merit-based selection were reinstated. There is also extensive short-term training provided to civil servants through the National School of Public Administration and other providers. Because of these and other factors, Poland's Supreme Audit Office gave a positive assessment of transparency and competitiveness of entry into the civil service and professional development in 2011 and found it much improved from the serious weaknesses the same office had found in 2004.

Poland's civil service is a hybrid system, combining career-based and position-based models. In the former, candidates are selected for general competencies, and then promoted and trained to fill higher level positions. There are two entry points into this stream. First, about 40 students graduate each year from an 18-month course at the National School of Public Administration. The intake was reduced from 60 to 40 last year for budgetary reasons. An average 300-400 applicants apply each year to compete for the available positions. Applicants must have a masters' degree and be 32 years of age or younger. Graduates are required to work at least five years in the public service and are assured positions in the career civil service until retirement age. The second entry point is through competitive examinations offered each year. To take the examinations, one needs at least three years' experience in the public service. About 3000 public administrators each year have taken the examination in recent years. Those with the highest grades are assured positions in the career service; the actual number taken depends on funds availability in the budget and can range from 50 to 1000.

Less than 6 percent of the civil service corps are civil servants in the career-based system, who either passed an exam or graduated from the National School of Public Administration. The rest are civil service employees hired on various contractual arrangements. Candidates apply for specific posts, and most recruitment is open to both internal and external candidates. Although, these officers are not guaranteed to keep their jobs, a high proportion of them stay until retirement. Poland is one of the highest adopters of a position-based system among Organization for Economic Co-operation and Development (OECD) members.

Overall, Poland has built up a much-improved civil service since the transition from communism almost thirty years ago, with the skills needed to oversee a successful transition. The service uses mainly transparent, competitive measures for entry and promotion into a hybrid system, combining career-based and position-based models. The National School of Public Administration holds a key role in the former, but also an important role in standard setting and training for the entire service. Government accountability is enhanced by a web of other institutions, including the Public Prosecutor, Ombudsmen, audit offices, and civil society organizations (Rose-Ackerman 2005). Because of these and other innovations in government and business, Poland has made impressive progress towards creating a modern, market-based economy, and successfully managing its integration into the European Union (EU) in 2004.

Real gross domestic product (GDP) in 2016 was 2.5 times what it was in 1990, a growth rate ahead of all other new EU member states. Real GDP increased by 3.0 percent in 2016 and rebounded to 4.6 percent in 2017 driven by private consumption which benefited from favorable labor market conditions and social benefits. Growth of GDP per capita was ahead of all large economies worldwide at a similar level of development[4]. It was the only European country not to go into recession following the 2008 global financial crisis and is close to beating the growth records of Japan and South Korea. Poland is also a good performer as measured by Oxfam's (2018) Commitment to Reducing Inequality Index, ranked 20 out of 157 countries, which is higher than most of its peers. Poverty has also steadily been reduced, see Figure O.2 and O.3 (World Bank 2017a).

b. *Recent government programs supported by the World Bank to promote business innovation and competitiveness*

Though the European Union is Poland's most important partner for economic and social development, the World Bank maintained close working relationship with the country between 2008 and 2015. The World Bank's lending was centered on seven large, cross-cutting development policy loans (DPLs) for a total of about $8 billion, including a considerable number of analytical products. For instance, the World Bank provide Public Finance Development Policy Loans of €1.75 billion (about $2.3 billion) between 2012 and 2014 in support of Poland's fiscal consolidation effort and the strengthening of fiscal institutions to improve the efficiency and sustainability of social spending (World Bank ,2019).

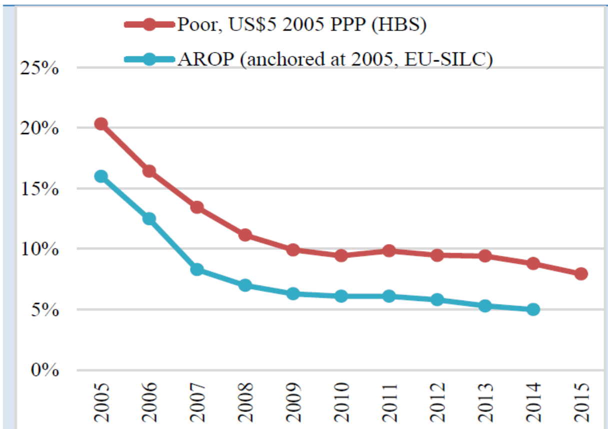
In 2007, Poland was meeting the debt, deficit, inflation, and interest rate criteria of the Maastricht Treaty. However, in 2008, growth slowed markedly. Revenue collections weakened, and social contributions fell, while simultaneously expenditures on social benefits and personal income tax relief for families and pensioners (which were generously indexed) increased. The fiscal deficit rose from 1.7 percent of gross domestic product (GDP) to 3.6 percent in 2008 and increased further to 7.3 percent in 2009 (World Bank, 2019) . The government responded with a supplementary budget in mid-2009 and entered into a flexible credit line (FCL) arrangement with the International Monetary Fund (IMF). The FCL was an "insurance policy," extended by the IMF based on their endorsement of existing policies and past reforms. While continuing to draw on EU funds, Poland also requested World Bank assistance. The external support enabled the government to adopt automatic stabilizers (reducing revenue, increasing social expenditures). Consequently, and although the fiscal deficit remained high at 7.3 percent of GDP in 2010, Poland was the only EU member country whose economy grew during the 2008 global economic crisis (World Bank, 2019).

Poland's political landscape changed with the tragic plane crash near Smolensk in Russia on April 10, 2010. The disaster took the lives of 96 people: political, military and religious leaders. Mr. Bronislaw Komorowski, the former Speaker of Parliament, became the new President of Poland, following presidential elections in 2010. Prime Minister Donald

4 1995-2014. World Bank. 2015.

Tusk (President, European Council since 2014) led a stable and popular majority government.

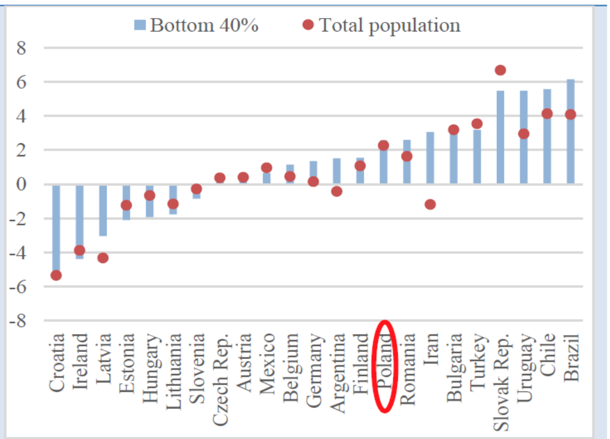
Figure O.2. Poverty Headcount at $5-a-day, $10-a-day (2005 PPP), and Anchored EU Poverty Lines, 2005–15




*Sources:* Household Budget Survey (HBS); European Union Statistics on Income and Living Conditions (EU-SILC); and Eurostat database (accessed April 2017).

*Note:* AROP = at-risk-of-poverty rate, measured as 60 percent of median income anchored in 2005 EU-SILC. PPP = purchasing power parity.

Figure O.3. Income Growth of the Bottom 40 Percent Relative to Total Population, Selected Countries, Circa 2008–13




*Source:* World Bank Global Database of Shared Prosperity (accessed November 1, 2016).

*Note:* Income growth for Bulgaria is for 2007–10.

In November 2011, Prime Minister Tusk began a second term in office with a coalition government that had a small majority in the Parliament, comprising the center-right Civic Platform Party and the agrarian Polish Peasants' Party. The Prime Minister announced quickly plans to strengthen public finances as a cornerstone of the reform agenda and later launched a medium-term government program aimed at: (i) strengthening public finances, (ii) safeguarding financial sector stability, and (iii) supporting private sector growth. A year later, when faced with a slowdown of growth from the impact of the financial crisis, the government decided to pursue policies aimed at boosting growth of the private sector amidst fiscal consolidation efforts. The reforms aimed to protect jobs, broaden the tax base, boost resilience of the financial sector, increase labor market flexibility, and further deregulate the economy. Strengthening public finances was critical to maintaining economic resilience in the face of strong external pressures. Real wages had been kept low, which had in turn forced many workers to leave the country. The number of Poles living abroad is estimated at between 2.5 and 4.4 million, equivalent to 7 - 12 percent of the present population of 38 million (Shapiro, 2018). Poland faced the additional challenge of meeting EU convergence criteria to sustain the reduction in fiscal deficits and maintaining their status during the preparation of the World Bank's Resilience and Growth Development Policy Loan series. The series aimed to enhancing macroeconomic resilience, ensure labor market resilience, promote employment and promote competitiveness and innovation.

To achieve this, the country aimed at enhancing the quality and efficiency of public finance, increasing the supply of relevant and skilled labor despite high levels of immigration and an aging population, and strengthening the business environment. The government responded with efforts to mitigate the social costs of the economic slowdown and to protect priority programs, and it entered into a flexible credit line (FCL) with the IMF as a backstopping arrangement that – while never drawn on – served significantly to strengthen Poland's creditworthiness during the crisis period.[5]

In 2011, the IMF Executive Board approved an FCL arrangement for $30 billion (World Bank 2012, 10). The IMF Board concluded in a 2012 review stating that Poland had met the criteria for access to additional FCL resources.  In January 2013, the amount was increased to $33.8 billion. In 2015, the FCL was reduced to $23 billion, reflecting the effectiveness of the reforms already undertaken in helping to weather the crisis. These IMF-supported arrangements gave the government greater flexibility in responding to the global crisis while preserving favorable access to international capital markets.

In May 2013, Poland's economy had become more seriously affected by the protracted recession in the Euro area, exacerbated by the weakening of global and domestic demand. This raised the question of whether fiscal consolidation might be premature or too aggressive. Growth slowed to 1.6 percent in 2012 and further to 1.4 percent in 2013. In response, the World Bank developed a follow-up series to tackle reforms related to macroeconomic resilience, such as setting a stabilizing expenditure rule and improving the tax compliance of foreign companies. It also addressed reforms that were affecting growth in Poland, such as the labor market inflexibility, employment, and innovation (World Bank, 2019).

Part of the World Bank program aimed to enhance private sector resilience, and to promote competitiveness and innovation, given that Poland is among the four least innovative economies in the EU (World Bank 2017b: 26).  A development policy loan series financed by the World Bank supported measures (prior actions) aimed at promoting innovation, creating institutional arrangements to support early stage innovation and technological startups, amending laws to improve the time for business registration and granting of construction permits, and enacting the Law on Insolvency and

5 Until 2017 IMF supported Poland with successive FCL arrangements, initially in May 2009 for Special Drawing Right (SDR) 13.7 billion. In 2011, access was increased to SDR 19.2 billion due to "heightened external risks", and further increased in 2013 to SDR 22 billion, with reductions thereafter until final closure. IMF considered that the FCL arrangements helped preserve favorable access to capital markets, facilitating a more flexible policy response, and reducing the volatility of local-currency government bond yields, particularly during periods of high stress in global financial markets. (Currently SDR1 = $1.39.)

Restructuring[6] of the corporate sector. There was also extensive analytical work on innovation, contract enforcement and insolvency, improving the business regulatory environment, and public enterprises.

Two out of five [7]planned outcome targets related to this objective were met. The first target was a planned reduction in the time needed to start a business from 32 days in 2013 to 25 days in 2016. While using traditional manual processes, it took 37 days to start a business in 2018. Using an online platform managed by the Ministry of Entrepreneurship and Technology (www.firma.gov.pl) can enable a business to be registered in less than a day (this assumes that the applicant already possesses required documents, including identification cards, insurance, and so forth). This estimated time includes the required visits to the commune office of the Central Registration and Information on Economic Activity to set up an account, and to complete the application. The proportion of new business registrations using this platform could not be determined, but the World Bank mission was informed by the IFC staff interviewed that most new businesses can use it.  However, the target was set based on the traditional application process time and thus, the target is considered not met.

The second target was to reduce the time to obtain a construction permit from 161 days (2013) to 141 days (2016). In 2018, the time required was 153 days, short of the target. The new law shortened the administrative procedures preceding the commencement of construction works and introduced a time limit for local authorities to file comments on planned investment that require permit. However, the changes are still being implemented and yet to be reflected in the nationwide assessments.

The third target of permitting simplified financial restructuring was met with the introduction of the new insolvency law of May 15, 2015 which reduces processes and compliance costs when firms are restructured.  The Restructuring Law and the Bankruptcy Law of 28 February 2003 are the two main laws that guide insolvency in Poland since 2016.  As noted by Niewczas and Mientkiewicz (2017), the two laws not only regulate companies that are insolvent but provide a comprehensive set of rules of conduct used in cases of insolvency or threat of insolvency of the debtor. They note that the new law makes the liquidation of the debtor’s property a last resort. It is beneficial in the sense that it allows the debtor to redress its business, and for creditors to collect their funds, and for the economy to maintain growth and consequently employment.

Table 2 presents policy actions undertaken by the government of Poland with support from the World Bank. It shows results indicators used to measure the implementation of

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6 The World Bank supported the enactment of the Law on General Restructuring, which introduced an insolvency and restructuring framework for the corporate sector. Other laws supported are the Law on National Court Register and the Construction Law (World Bank, 2017b).

7 Success is defined by the achievement of relevant objectives of the development policy loans. It is measured by the results indicators set for measuring progress by the government. These indicators are presented in Table 2.

the policy actions (also called prior action for development policy loans). The paper assesses the achievement of the objectives in the policy loans based on the development outcomes. This assessment presents a photo of achievements during the mission to Poland in 2018. The results could differ when assessed at a different time.

| Development Policy Loan Prior Actions | Results Indicators (Targets) | Outcome of Indicators (Achievement) |
|---|---|---|

| | | |
|---|---|---|
| Prior Action # 1: Resolution by the Cabinet of Ministers to approve Poland’s Enterprise Development Program (EDevP) to create clearer institutional arrangements and increase support for early stage innovation and technological startups to enhance innovation through focused support programs in this area. | Reduction in the time it takes to start a business to 25 days. | Not met: Traditional application- 37 days). However, online application is less than a day |
| Prior Action # 2: Decision by the Cabinet of Ministers to approve a concept (“assumptions”) of a new General Restructuring Law dealing with insolvency and restructuring in the corporate sector. | | Not met. In 2018, the time required was 153 days. |
| Prior Action # 3: Submission to the Cabinet of Ministers standing committee a draft Law on Facilitating Access to Business Activity (alternatively referred to as “Fourth Deregulation Law’) and through a Decision of the Council of Ministers approval of draft amendments to the Law on the National Court Register aimed at improving business environment through streamlined procedures, including port clearance, business startups and enterprise transactions. | Reduction in the time it takes to obtain a construction permit to 140 days. | Not Met: Target was not met in 2014, temporarily met in 2015 but not sustained. |
| Prior Action # 4: Through the NCBR issue three inaugural open calls for proposals for R&D (research and development) and innovation projects and programs in accordance with the Smart Growth Operational Program (SGOP) to guide the European Union co-financed programs with more focused, streamlined and business centered programs. | Total R&D spending (as a percent of GDP) increased to 1 percent by 2014. | Met |
| Prior Action # 5: Enact the Law on General Restructuring, which introduces an insolvency and restructuring legal framework for the corporate sector. | Issuance of mortgage bank (covered) bonds. | Met |
| Prior Action # 6: Creation of “one-stop-shops” for quick business registration through the enactment of the amendments to the law on National Court Register and enactment of amendments to the Construction Law to ease issuance of construction permits. | Simplified restructuring permitted. | |

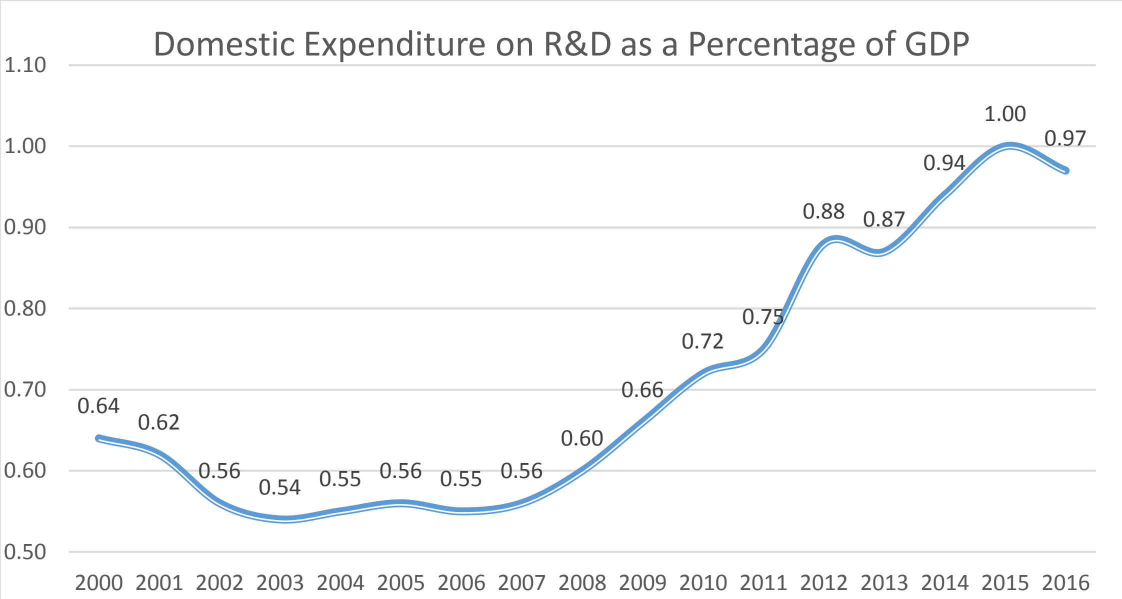
The fourth target of increasing R&D spending from 0.88 percent of GDP (2013) to 1 percent (2014) was temporarily achieved in 2015 as shown in figure 1. The target is considered not met given that it was not achieved in 2014 as expected, and when it was met in 2015, it declined the next year. The indicator measures an input to innovation rather than increased innovation per se, for which there is mixed evidence. The EC-encouraged innovation processes including the Smart Growth Operation Program[8], supported by the World Bank through technical assistance and analytical work9. While there are highly innovative Polish companies such as CD Project, Europe's leading video gaming firm, innovation is slow to take off in other sectors. Close ties between business and academia that promote innovation in other countries have yet to develop in Poland, where universities retain ownership of any intellectual property produced by their staff, thus removing the individual profit motive for collaboration between faculty and business. Leading universities have emerged from long standing cultural beliefs that the pursuit of knowledge should be kept separate from ordinary concerns of everyday life, and this tradition is hard to change10.

8 The program finances R&D spending and works to improve links between business and cutting-edge science with the goal of boosting the innovation and competitiveness of Polish businesses.

9 One of such analytical work is Toward an innovative Poland: The entrepreneurial discovery process and business needs analysis.

10 Interview with Ryszard Praszkier, University of Warsaw

Figure 1: Gross domestic expenditure on research and development as a percentage of GDP in Poland from 2000 to 2016.




Source: Statista Accounts[11]. Consulted in February 2019.

Yet there is one measure that signals overall that there has been rapid and significant improvement. In 2014, when the DPL series was approved, Poland ranked 65th in innovation out of 148 countries under the World Economic Forum’s Global Competitiveness Index (WEF), and 41st in competitiveness. According to the latest rankings on innovation, Poland now ranks 38th out of 148 countries in innovation, and 37th in competitiveness (WEF 2014, 2018). The World Bank's support has plausibly contributed to this improvement through the prior actions supported to increase spending on R&D, while working closely with the EC and other partners.

While the transition in Poland produced substantial benefits, there were some who felt left behind, and they helped to elect a new, populist regime in 2015. Since the new government came to power in 2015, the World Bank has worked hard to build on the work of the development policy series both by supporting the new policy agenda and strengthening the technical capacity of key institutions. Support to policy initiatives included improved communication with taxpayers to reduce costs and improve compliance, streamlined budget preparation, budget classification and accounting, and taxation of non-standard employment contracts. Technical support addressed sequencing of budget reform, links between customs and other tax administration, and macro-fiscal forecasting using the MFMod toolbox. This work will be extended with support from World Bank technical assistance, funded under a new EU facility (World Bank 2018).

11 https://www.statista.com/statistics/420993/gross-domestic-expenditure-on-research-and-development-gdp-poland/.

The new government has amended the Civil Service Act to allow recruitment of senior staff without going through the normal, competitive, merit-based process. This is a concern for retaining the high standards of administration going forward. However, there are challenges with the merit-based system as well. A labor specialist told the World Bank mission of a celebrated case where a candidate selected for a high-level position using the normal, technical selection process including an examination turned out to be totally unsuitable and had to be replaced. Poland is not the only OECD country to use political criteria for selecting senior staff: the USA has practiced this from the beginning, for example. At the end of the day, recruiting outstanding staff to key leadership positions is a challenge for any selection process.

The EU has been sharply critical of the new government's move to reduce the retirement age of judges, seeking for them to resign before their six-year term is up and be replaced with new politically loyal judges. While the World Bank did not directly support judicial independence, it is an implicit part of the objective of enhancing private sector resilience, where an impartial judicial system is vital. In this case, the European Commission has been sharply critical of this change in policy, citing violations of the Treaty on the European Union, Article 19 and the Charter of Fundamental Rights, Article 47. In response, the government reversed itself under an act of Parliament in November 2018, and agreed to raise the retirement age back to its initial level, and to reinstate judges that were forced into early retirement.

The government's replacement of senior management of state media outlets with politically loyal executives is also causing concern about limits to free expression. While the government's actions in the justice system and the media are forcefully debated among increasing divided domestic political groups, these actions so far have not affected the substance of EU relationship such as the flow of considerable EU funds to Poland.

## Conclusions

Poland's transition from a command planned to market based economy started picking up speed with the adoption January 1, 1990 of the Balcerowicz Plan. It became a key landmark of innovation in Poland's transition. The result was to create much more favorable conditions for private business development. A different set of innovations in public administration also played a role. Overall, Poland has built up a much-improved, more accountable civil service, since the transition from communism almost thirty years ago. As a result of these and other innovations in government and business, Poland has made impressive progress towards creating a modern, market-based economy with widely shared benefits.

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The onset of the global financial crisis in 2008, combined with a new government in 2010, led to renewed interest in enhancing private sector resilience, and to promote competitiveness and innovation. A World Bank financed policy operation had some success in this area. Although a populist regime elected in 2015 has questioned some of the measures particularly an independent judicial system and media, most of the market enhancing measures adopted since 1990 are still in place.

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